

Decision **DRAFT DECISION OF ALJ GALVIN** (Mailed 6/12/06)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) for a Commission Decision Authorizing Amortization of its Current Undercollection in its Energy Resource Recovery Account Through Generation Rates Adopted in D.06-01-035.

Application 06-04-016
(Filed April 14, 2006)

**OPINION AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY
TO MAINTAIN ITS CURRENTLY AUTHORIZED ENERGY
RESOURCE RECOVERY ACCOUNT RATE LEVELS**

1. Summary

This decision authorizes Southern California Edison Company (SCE) to maintain its currently authorized Energy Resource Recovery Account (ERRA) rates. SCE is required to monitor its ERRA balances on a frequent basis and file timely expedited ERRA applications. In the future, SCE is authorized to notify the Commission through advice letter filings instead of expedited applications when ERRA balances will exceed its trigger points, but no changes are required in ERRA rates to amortize the balance. Expedited ERRA applications shall continue to be used when rate changes are necessary to amortize ERRA balances.

2. Background

Section 454.5(d)(3) of the Public Utilities Code provides for the timely recovery of procurement costs incurred by electric utilities that are under an approved procurement plan.¹ It also provides for recorded revenues and costs incurred under an approved procurement plan to be tracked in a power procurement balancing account. Until January 1, 2006, the balance of that account is not to exceed 5% (threshold point) of the electrical utility's actual recorded generation revenues for the prior calendar year, excluding revenues collected for the Department of Water Resources (DWR).

Pursuant to § 454.5(d)(3), an ERRA was established to track the differences between fuel and purchased power revenue requirements and actual recorded costs of an approved procurement plan.² That decision also established a trigger mechanism to ensure that the 5% threshold point would not be reached. The trigger mechanism requires any electrical corporation whose ERRA balance reaches 4% of its prior year's recorded generation revenues, excluding revenues collected for the DWR, to file an expedited application for approval to adjust its rates in 60 days from the filing date when its ERRA balance reaches four percent. Any such expedited application is to include (1) a projected account balance in 60 days or more from the date of filing depending on when the balance will reach the 5% threshold and (2) propose an amortization period for the 5% of not less than 90 days. Although the statutory trigger requirement expired on

¹ All statutory references are to the Public Utilities Code unless otherwise stated.

² Decision (D.) 02-10-062 (2002), *mimeo.*, p. 77.

January 1, 2006, it has been extended to the term of the long-term contracts, or ten years, whichever is longer.³

At January 31, 2006, SCE had a \$126 million undercollected balance in its ERRA, or 3.15%, of its prior year recorded generation revenues excluding revenues collected for the DWR. By the end of February 2006, that undercollected balance had increased further to \$206 million, or 5.16% of prior year recorded generation revenues; exceeding both its \$160 million trigger and \$200 million threshold points. SCE filed the required expedited application 45 days later on April 14, 2006.

3. Requested Authority

SCE seeks no change in its ERRA rates because its undercollected ERRA balance will be fully amortized by the end of June 2006. However, SCE does seek approval to make an Advice Letter filing instead of an Application, to notify the Commission in future situations, where the ERRA balance exceeds its trigger and threshold points but does not require a change in its ERRA rates.

4. Discussion

A. ERRA Trigger

We concur with SCE that there is nothing the Commission can do to prevent its ERRA balance from exceeding the 5% threshold point when the ERRA balance jumps from less than the 4% percent trigger point to more than the 5% threshold point in one month. However, SCE's delayed compliance with § 454.5 and Commission Decisions D.02-10-062 and D.04-12-048 prevents us from taking timely action as required by the statute. Particularly since it only took SCE

³ D.04-12-048 (2004), *mimeo.*, p. 103.

25 days to file an expedited ERRA application (Application (A.) 05-03-027) when its ERRA balance reached its trigger point, in comparison to the 45 days it took SCE to file its expedited application when its ERRA balance exceeded both its trigger and threshold points.

The statute required a threshold point to “ensure” that the ERRA does not exceed the threshold point. To comply with this requirement SCE needs to be more attentive to its ERRA balances. SCE should monitor its ERRA balances on a frequent basis and file timely expedited ERRA applications. Failure to do so may result in a penalty as set forth in § 2107.

B. Rate Impact

SCE attributed two contributing factors to the reason it surpassed its trigger and threshold points in a single month. The first factor pertains to the calculation of trigger and threshold points. Those calculations, based on prior year’s recorded generation revenues, did not include the impact of a 2006 ERRA revenue requirement increase of \$961 million approved by the Commission in D.06-01-035.

The second factor pertains to the seasonal rate design practices of SCE. Its residential customers’ generation rates are increased in summer months and decreased in winter months. At the same time, an opposite adjustment is made to its customers’ distribution rates, so that on a total rate basis its customers are indifferent to the seasonal rate changes. This rate design results in ERRA undercollected accruals during the winter months when residential customers’ generation rates are set artificially low. However, during the summer months, these undercollections are unwound in the normal course of business because the summer generation rates are designed to produce greater revenues.

SCE has substantiated that its implementation of an increased 2006 ERRA revenue requirement and seasonality of its ERRA revenue stream mitigates the need to adjust ERRA rates and that its ERRA undercollected balance will be eliminated by the end of June 2006. No adjustment is needed to the currently approved ERRA rates.

C. Future Trigger Filings

This is SCE's second expedited ERRA application in less than a year. Its first filing, A.05-03-027, was made on March 25, 2005. Similar to the filing before us, that filing identified a substantial undercollected balance that exceeded its trigger and threshold points and resulted in no change in its ERRA rates.⁴

SCE believes that it will again reach its ERRA trigger point in the future. For administrative efficiency, SCE seeks authority to notify the Commission through advice letter filings instead of expedited applications when its ERRA balances exceed the trigger point and SCE proposes no changes in its ERRA rates. SCE would provide necessary documentation supporting its proposal to not change rates in its advice letters. Consistent with the 60-day time period set forth in § 454.5(d) (3) for approving expedited ERRA applications, SCE recommends that resolutions addressing such advice letters be issued within 60 days of filing. SCE would continue to file expedited applications as currently required in those instances where the ERRA balance exceeds its trigger point and rate changes are necessary to amortize the balance. SCE's advice letter proposal would also enable the Commission to make more efficient use of its staff. SCE's proposal to notify the Commission through advice letter filing instead of an

⁴ D.05-05-034 (2005), *mimeo.*, pp. 1 through 5.

expedited application when the ERRA balance exceeds its trigger level but no rate change is required is reasonable. However, SCE's recommendation that such advice letters be approved within 60 days by Commission resolution is not administratively efficient. As such, the proposal is modified.

In future situations when the ERRA balance exceeds the trigger point of 4% and SCE does not seek a change in rates, SCE is authorized to file an advice letter notification with the Commission's Energy Division if the ERRA balance will self-correct below the trigger point within 120 days of filing. The advice letter filing shall include necessary documentation to support SCE's conclusion that the ERRA balance will self-correct below the trigger point within 120 days and that a rate change is not needed. SCE is required to continue to file expedited applications as currently required in those instances where the ERRA balance exceeds its trigger point and rate changes are necessary to amortize the balance.

Energy Division disposition of SCE's advice letters that meet the requirements specified herein is authorized in accordance with GO 96-A and D.05-01-032 (Appendix, Rule 4.7).

5. Category and Need for Hearing

In Resolution ALJ 176-3171, dated April 27, 2006, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were not necessary. This matter appeared on the Commission's April 20, 2006 Daily Calendar. There is no filed opposition to this application. Based on the record, we affirm that this is a ratesetting proceeding, and that hearings are not necessary.

6. Comment Period

This is an uncontested matter in which SCE is the only party. SCE has agreed to reduce the comment period to five business days. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being reduced to five business days.

Comments timely received from SCE resulted in changing the self-correcting time period allowed for filing an advice letter to 120 days from 90 days.

7. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and Michael J. Galvin is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Section 454.5(d) (3) provides for the timely recovery of procurement costs incurred by electric utilities that are under an approved procurement plan.

2. The balance in an ERRA balancing account is not to exceed 5% of the electric utility's actual recorded generation revenues for the prior calendar year excluding revenues collected for the DWR.

3. A trigger mechanism was established that requires any electrical corporation whose ERRA balance reaches 4% of its prior year's recorded generation revenues excluding revenues collected for the DWR, to file an expedited application for approval to adjust its rates in 60 days from the filing date.

4. SCE filed this expedited application 45 days after February 28, 2006 when its undercollected ERRA balance exceeded its trigger and threshold points.

5. SCE seeks no change to its ERRA related rates on the basis that its undercollected ERRA balance will be fully amortized by June of 2006.

6. SCE seeks approval to make Advice Letter filings instead of Expedited Application to notify the Commission of future ERRA balances that reach its trigger points that do not require a change in its ERRA rates.

7. SCE has agreed to reduce the time period for comment to five days.

8. SCE's proposal is not administratively efficient.

9. SCE's proposal is modified.

10. SCE should be authorized to file an advice letter, not an expedited application, with the Commission's Energy Division when the ERRA balance exceeds the trigger point and SCE does not seek a change in rates, if the ERRA balance will self-correct below the trigger point within 120 days of filing.

11. The advice letter filing should include necessary documentation to support SCE's conclusion.

12. SCE should continue to file an expedited application in those instances where the ERRA balance exceeds the trigger point and rate changes are necessary to amortize the balance.

13. GO 96-A and Rule 4.7 appended to D.05-01-032 authorizes Energy Division staff disposition of SCE's advice letter requests that meet the criteria specified in this decision.

14. There is no opposition to this application.

Conclusion of Law

This application should be approved subject to certain changes to the proposed advice letter process.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (SCE) is authorized to maintain its currently authorized Energy Resource Recovery Account (ERRA) rates so that it may draw down its February 2006 undercollected ERRA balance by the end of June 2006.

2. SCE shall monitor its ERRA balances on a frequent basis and file timely expedited ERRA applications.

3. SCE is authorized to notify the Commission through advice letter filing, instead of expedited application, when the ERRRA balance exceeds its trigger point and SCE does not seek a change in rates, if the ERRRA balance will self-correct below the trigger point within 120 days of filing.

4. SCE shall include necessary documentation to support its advice letter filings.

5. SCE shall continue to file an expedited application in those instances where the ERRRA balance exceeds the trigger point and rate changes are necessary to amortize the balance.

6. Energy Division staff disposition of SCE's advice letter requests which satisfy the criteria described in this decision is authorized in accordance with General Order 96-A and Decision 05-01-031.

7. Application 06-04-016 is closed.

This order is effective today.

Dated _____, at San Francisco, California.